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SUBJECT: VIETNAM SCENESETTER FOR ASSISTANT TO THE PRESIDENT AND

DEPUTY NSC ADVISOR PRICE

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¶1. (U) Your visit is a good opportunity to encourage Vietnam to continue the process of opening to the world and reforming internally. Vietnam's national leadership remains eager to learn from the United States on economic and governance reform, and will be attentive to what you have to say. Your visit will also underscore the high level of attention the USG is paying to the development of Vietnam as a trading partner, investment destination and as an export market for U.S. goods and services. The media here is signaling a warm welcome, and I predict that your visit will resonate favorably.

VIETNAM'S EAGERNESS TO PROVE ITSELF AS THE NEXT TIGER

¶2. (U) Mission Vietnam very much looks forward to your visit to Hanoi from March 20 to 22, as your personal engagement will support directly our important, broad-based efforts to influence developments in this increasingly important country. After decades of isolation and failed economic policies, Vietnam is determined to catch up with the Asian tigers. The government of Vietnam (GVN) aims to achieve the ranks of middle-income developing countries by 2010 and to be an industrialized country by 2020. In its efforts to modernize the economy, the GVN has focused on pushing exports and investment as key drivers in its policy of fast economic growth to reach its goals.

¶3. (SBU) When Vietnam started its "doi moi" (renovation) program of economic reforms in 1986, the economy was in shambles and the vast majority of the population lived in poverty. Vietnam's economic reforms have set the country on a successful market economy path demonstrated by average annual economic growth of 7.5 percent during the last decade. In 2007, the economy grew at a rate of 8.5 percent. Poverty rates have tumbled from 58 percent in 1993 to under 15 percent in 2007, according to the GVN's latest figures. A recent World Bank study described this poverty reduction rate as the most significant in such a short period of time of any nation in history. The middle class is growing and retail markets are booming.

THE U.S. AS A PIVOTAL PLAYER

¶14. (U) The United States is Vietnam's third largest trade partner, after China and Japan, and its largest export market. Total two-way trade in goods with the United States in 2007 was \$12.53 billion, up 29 percent from 2006, according to the U.S. Department of Commerce. One of the most positive stories of the 2007 trade figures was the surge in U.S. exports to Vietnam, which increased by 73 percent to \$1.9 billion from \$1.1 billion in 2006, as measured by the USG. U.S. agricultural exports, in particular, showed remarkable growth. Cotton exports, used as inputs for Vietnam's garment industry, grew 92 percent, soybean exports were up 1,480 percent, and wheat exports up 1,120 percent. A wide range of U.S. commodities including hardwood, wheat, hides and skins, soybean meal, tree nuts, fresh fruit, poultry and red meats, also posted record gains in 2007.

¶15. (U) The United States is also Vietnam's seventh largest investor, with \$2.6 billion in registered FDI since 1988 (South Korea is the largest with \$11 billion). According to a 2007 study, however, "U.S.-related investment" would be at least \$2 billion more if one counts investment via overseas U.S. subsidiaries. For example, normal FDI accounting methods credit Intel's recent \$1 billion investment not to the United States but to Hong Kong because it was conducted from the chip maker's subsidiary there. The technology industry, in particular, has increasingly chosen Vietnam as an investment destination, with U.S. companies like V-CAP and Emerson recently announcing plans to open facilities here. By any measure, we are a big player here as both Vietnam's most important export market and a substantial source of investment.

¶16. (SBU) The influence of the United States is not restricted to growth in trade and investment. Over the past decade, the United States has become a key player and partner in helping Vietnam implement market reforms and eschew central planning through innovative technical assistance programs. During your visit, the

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Mission and USTR will hold meetings with the GVN on a broad spectrum of trade and investment issues under the 2007 Trade and Investment Framework Agreement. A great deal of the discussions will center on implementation of Vietnam's WTO commitments, which have largely been proceeding on track. One area USTR will highlight during this visit is concerns over Vietnam's protection of intellectual property rights (IPR), including weak enforcement efforts and failure to meet its WTO commitment to provide for criminal remedies for commercial scale IPR violations. (Note: Vietnam is currently on USTR's Special 301 Watch List. End note.)

U.S. COMMERCIAL SUCCESSES AND OPPORTUNITIES

¶17. (SBU) Aircraft sales and telecoms have presented some of the most rewarding commercial opportunities to date. In November 2007, Boeing, Vietnam Airlines (VNA) and the newly formed Vietnam Aircraft Leasing Company (VALC) inked a \$1.88 billion deal for the purchase of twelve 787 Boeing "Dreamliners." VNA and VALC have now procured 31 Boeing aircraft. Other recent notable commercial successes include Motorola securing three contracts to build the mobile phone network of a state-owned mobile phone service provider and U.S. firm Wilbur Smith Associates' successful bid to provide consultancy services for the Danang airport expansion. On April 12, Vietnam will launch Vinasat 1, a \$168 million satellite built by Lockheed-Martin, which also constructed the associated earth station.

¶18. (SBU) In addition to the above successes, a number of significant commercial opportunities loom on the horizon. Boeing hopes to close a deal for seven additional 787s in 2008, possibly coinciding with a potential state visit to the United States later this year by Prime Minister Nguyen Tan Dung. GE Aviation, meanwhile, is engaged in a sales campaign with Rolls Royce to sell jet engines to VNA for its 787 fleet - a deal valued at around \$350 million for GE. AES, a U.S. power company, is negotiating with state-owned power company Electricity of Vietnam to build the 1,200-megawatt Mong Duong II thermal power generation project in Vietnam's northeastern Quang

Ninh province. Chevron is also in negotiations to build an offshore pipeline and supply gas to a power plant in southern Vietnam.

GROWING RELIANCE ON U.S. ADVICE

¶9. (U) Despite our fractious history, Vietnam and the United States are forging closer ties each day. Vietnam's motivation to seek stronger ties is clear. As noted above, we are Vietnam's largest market and one of its closest trading partners. The GVN also sees the United States as a critical source of financial and technical assistance. Hanoi also increasingly sees the United States as an important force in maintaining a stable regional environment and balancing a rising China. For our part, Vietnam provides an important opportunity in East Asia for advancing U.S. national interests in securing a stable and peaceful Asia-Pacific region. We are also encouraged by the steady liberalization of the government's role in the life of its citizens. Problems remain, as noted below, but all agree that basic trends are positive with regard to personal freedoms, when viewed over time.

¶10. (U) As noted above, over the past ten years Washington has very effectively invested limited aid dollars to support Vietnam's transition to a market economy by strengthening trade liberalization, particularly the reforms needed to implement commitments under the 2001 Bilateral Trade Agreement (BTA) and WTO. Two of our programs, Support for Trade Acceleration ("STAR") and the Vietnam Competitiveness Initiative, support Vietnam's efforts to create a modern market economy and the legal framework that supports it. The STAR team has been involved directly the overhaul of Vietnam's civil procedure code, new investment laws providing for equal treatment of state-owned and private companies, a securities law to help develop Vietnam's capital market, protecting IPR, and numerous other projects to shore up greater transparency, rule of law and civil society. As a direct result of these programs, Vietnam has expanded its reforms to include areas of good governance, including improving accountability, transparency and anti-corruption efforts.

¶11. (U) Eighty five percent of all U.S. Official Development Assistance to Vietnam focuses on health issues, and our cooperative

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efforts to prevent and treat HIV/AIDS and combat Avian Influenza are the hallmarks of our bilateral health relationship. Vietnam will receive approximately \$88 million in PEPFAR funding in FY07 aimed at preventing new infections, providing care to 40,000 persons, including orphans and vulnerable children, and support anti-Retroviral treatment for 9,000 patients. Our target is to support treatment for 22,000 HIV-infected persons by September **¶2009.**

¶12. (U) U.S. Avian Influenza-related assistance has totaled nearly \$23 million over the past three years and has focused on preventing a pandemic, including strengthening emergency preparedness, building veterinary laboratory capacity, animal vaccination campaigns, animal surveillance and response, and public awareness. In FY08 we anticipate approximately \$8 million in USAID funding for Avian Influenza - a doubling of the FY07 level - to continue vaccination programs, assist health surveillance, farmer and general population education and best sanitary practices.

¶13. (SBU) Last September, pursuant to the U.S. National Nuclear Security Administration's (NNSA) Global Threat Reduction Initiative (GTRI), the United States worked in cooperation with the Russian Federation and the International Atomic Energy Agency (IAEA) to assist Vietnam to convert its only civilian nuclear reactor from high to low enriched uranium fuel and return spent high enriched uranium to Russia. NNSA continues to assist Vietnam to develop the necessary physical and regulatory safeguards to establish a civilian nuclear power sector.

¶14. (U) The current indications from the planning figures in the FY08 and FY09 budgetary process is that USAID will be in a position to expand its assistance, especially in the areas of economic growth and reform and good governance. Given the expansion of the program

and in recognition of the growing development relationship between the United States and Vietnam, USAID in Hanoi will soon become a full stand-alone USAID presence mission.

CHALLENGES: INFLATION, OUTDATED ACADEMIC SYSTEM, STATISM

¶15. (SBU) Despite these achievements, Vietnam still faces substantial challenges. High inflation worries the national leadership, and fighting inflation now competes with economic growth as the top economic priority. Prices have increased during the last several months, measuring 15.7 percent year-on-year in February 2008. The GVN has taken steps to rein in inflation, such as reducing import tariffs, raising interest rates and widening the trading band on the Dong, but it is not yet clear if these measures will be effective.

¶16. (SBU) Another significant challenge is the large size of Vietnam's state sector. It accounts for about 37 percent of GDP and includes state-owned enterprises (SOEs) that dominate telecommunications, banking, energy, airlines and other key sectors. While the GVN works to attract more FDI and promote the domestic private sector, it also intends to maintain a major role for the state sector in the economy. For now, the government is focusing on the process known as "equitization" as way to help improve the competitiveness of the state sector. By allowing private parties to buy shares of an SOE, even if less than a controlling share, the GVN hopes that this will force the companies to perform better. There have been delays in equitizing more SOEs, as well as state owned commercial banks. Complicating the equitization process has been Vietnam's troubled stock market, which is currently hovering above 600, down from over 1000 in 2007. The GVN has recently attempted to rehabilitate the market by loosening foreign ownership laws and directing the State Capital Investment Corporation to buy shares.

¶17. (SBU) Other areas of concern include an outdated education system that is failing to keep up with the demands of a modern economy. An acute shortage of skilled and semi-skilled labor may pose a major roadblock to development. The Mission is leading efforts to deepen U.S. engagement with Vietnam on education issues by brokering partnerships between Vietnam's academic institutions and the private sector, including U.S. businesses, and through a formal "Education Initiative" designed to radically increase the number of Vietnamese students choosing the United States for overseas training. Like human resources, infrastructure limitations also presents a challenge to Vietnam's continued rapid growth. As

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you will doubtlessly notice during your visit, roads, rail and port capacity have failed to keep up with Vietnam's rapid economic expansion. Corruption also continues to be a significant problem in Vietnam, and Transparency International's perception index ranks Vietnam at 123 of 179 countries, a continuous backsliding since 2002.

CHALLENGES ON HUMAN RIGHTS

¶18. (SBU) While we share common views with the GVN in many areas, differences over human rights remain, and lingering fears that the United States supports the overthrow of the current regime continue to complicate the relationship. The existence of groups in the United States and elsewhere that explicitly advocate regime change helps generate negative charges by conservatives here which stoke a lingering paranoia that we are indeed still "the enemy." Reassuring the GVN that the USG does not support separatist groups can assist in building a better human rights dialogue based on mutual trust.

¶19. (SBU) Serious deficiencies related to human rights in Vietnam include lack of freedom of speech, freedom of assembly and freedom of the press. One of our key objectives is to end the use of catch-all "national security" provisions such as Article 88 of the GVN criminal code, which prohibits "conducting propaganda against the State." The Mission tracks approximately 50 individual cases of prisoners of conscience and activists under various forms of house arrest, surveillance, and/or harassment. We continue to call for

the release of all prisoners of conscience and freedom of peaceful expression of political views, but where we see individuals expressing their political opinions, many of our government interlocutors see "lawbreakers" trying to destabilize the regime.

¶20. (SBU) In other areas, however, perceptible progress is being made. Key Vietnamese leaders are committed to enhancing governance, establishing the rule of law and combating corruption -- all critical in building guarantees of individual freedoms. Vietnam's leading newspapers are more aggressive in what they publish and in their willingness to push back against censors. Whereas only a few years ago, any protest would meet swift and severe police action, this past year various peaceful protests have taken place involving issues such as land rights, opposition to Chinese territorial claims and demands for the return of Catholic Church property, with one stretching out for a month before it finally ended peacefully. With regard to religious freedom, Vietnam has made surprising progress, in large part due to the intensive engagement of Ambassador-at-Large for International Religious Freedom John Hanford over recent years. More needs to be done, but the country no longer qualifies as a particularly severe violator of religious freedom under our legal definition and we removed the nation from the list of countries of particular concern in late 2006.

AGENT ORANGE

¶21. (SBU) Over the past few years, we have begun to turn a new leaf on the Agent Orange/dioxin issue with regards to government-to-government relations and changing Vietnam's tone in how they approach this issue, which has been used to demonize the United States. While we do not believe that sound science supports certain GVN assertions regarding health impacts, certain "hotspots," where Agent Orange was stored and loaded during the war, have soil dioxin concentrations exceeding levels recommended by the U.S. Environmental Protection Agency (EPA). Beginning in 2006, the State Department and EPA provided \$400,000 in technical assistance to the GVN for remediation planning and immediate interventions at the Danang airport. Last year, Congress appropriated an additional \$3 million in Economic Support Funds (ESF) for "dioxin mitigation and health activities," which we are in the process of implementing. The USG is continuing to work together with the GVN, UNDP, Ford Foundation and other partners in this increasingly multilateral effort to address the affects of dioxin.

VIETNAM'S INTERNATIONAL AND REGIONAL PROFILE

¶22. (SBU) Vietnam's UNSC membership creates a window of opportunity to encourage Vietnam to speak out in a constructive way on global security issues, and to help Hanoi distance today's Vietnam from the

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Non-Aligned Movement (NAM) and Communist-Bloc focus driving its old-style foreign policy. We have been proactive here and in Washington in educating GVN leaders and officials on Burma, North Korea and Iran, where in the past it has been unwilling to engage constructively with us due to "traditional friendships" and non-interference. Despite repeated demarches so far this year, Vietnam lined up against our positions in UNSC debates on Burma and Kosovo.

¶23. (U) Regionally, Vietnam has become a more prominent player in ASEAN, and successfully hosted the APEC Summit in 2006. Vietnam is slated to be chair of ASEAN in 2009, so this visit is an excellent opportunity to underscore the commitment of the United States to promote the U.S.-ASEAN Enhanced Partnership, which will provide expertise and support for ASEAN integration towards becoming the ASEAN Community by 2015. Your visit also provides a chance to highlight our support and interest in cooperating on initiatives such as the ASEAN Single Window Program to support the development of a customs clearance system.

VIETNAMESE CONCERN ABOUT CHINA

¶24. (SBU) While Vietnam's engagement with the United States will continue to broaden, China necessarily constitutes Vietnam's most important strategic preoccupation. This is not to say that Vietnam is "choosing" China over the United States; the situation is much more complex than that. For starters, Vietnam's leadership is sophisticated enough to realize that relations with China and the United States do not represent a zero sum game; it is possible to have good relations with both. Each relationship also creates challenges, however. While China constitutes a vital and necessary commercial partner and former ally, it is also perceived as a significant and frustrating constraint to Vietnam's freedom on action.

¶25. (SBU) Chinese bullying of foreign companies in an attempt to compel them to cease oil and gas exploration efforts in the South China Sea serves to remind Vietnamese officials that while the Vietnamese may not approve of all U.S. policies, the same is certainly true of Chinese actions. While progress has been made in settling the land border, there is no commonality of views on sovereignty issues regarding the South China Sea, known as the "East Sea" to the Vietnamese. Hanoi is also "riding the tiger" with regard to managing the deep negative views toward China of many Vietnamese. China is widely disliked and distrusted as a former colonial master, and Beijing's actions in the Spratlys and Paracels threaten to inflame those passions. Should Hanoi allow unconstrained protests against the Chinese, however, it would appear weak in the face of calls to action that it could not satisfy, as well as risking Beijing's anger.

¶26. (SBU) On security matters, China looms large. There is an understandable GVN caution with regard to China's potential reaction to enhancements in Vietnam's cooperation with the United States. U.S.-Vietnam cooperation in the security field is also constrained by an institutional conservatism born of concern over "peaceful evolution" as a real threat to the regime, as well as by an ingrained caution on the part of Vietnam's military in the face of relative power calculations vis-a-vis China.

CONCLUSION

¶27. (U) Again, I warmly welcome your visit. It will prove critical in promoting further economic reforms, signaling our desire to invest and expand markets, and encourage Vietnam to take a larger role in regional and global affairs.

MICHALAK